

**REPORT OF THE AUDIT OF THE
POWELL COUNTY
SHERIFF**

**For The Year Ended
December 31, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
POWELL COUNTY SHERIFF

For The Year Ended
December 31, 2005

The Auditor of Public Accounts has completed the Powell County Sheriff's audit for the year ended December 31, 2005. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$6,477 from the prior year, resulting in excess fees of \$10,534 as of December 31, 2005. Revenues increased by \$30,902 from the prior year and expenditures increased by \$24,425.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Powell County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 22, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Powell County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

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Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 22, 2006

POWELL COUNTY
JOE MARTIN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	2,425
State - Kentucky Law Enforcement Foundation Program Fund			13,606
State Fees For Services:			
Finance and Administration Cabinet	\$	15,191	
Sheriff Security Service		18,452	
Cabinet For Human Resources		<u>120</u>	33,763
Circuit Court Clerk:			
Fines and Fees Collected			2,632
Fiscal Court			16,194
County Clerk - Delinquent Taxes			1,404
Commission On Taxes Collected			98,445
Fees Collected For Services:			
Auto Inspections		3,230	
Accident and Police Reports		479	
Serving Papers		22,996	
Carrying Concealed Deadly Weapon Permits		<u>4,035</u>	30,740
Other:			
Calendar Ad		1,500	
Add-On Fees		19,988	
Miscellaneous		2,531	
School Resource Officer Reimbursement		<u>44,000</u>	68,019
Interest Earned			1,306
Borrowed Money:			
State Advancement		15,000	
Bank Note		<u>35,000</u>	<u>50,000</u>
Total Revenues			<u>318,534</u>

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
 JOE MARTIN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2005
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Gross Salaries	\$	33,333
Part-Time Gross Salaries		1,621
Other Gross Salaries		38,049
School Resource Officer Salaries		40,631
Kentucky Law Enforcement Foundation Program		11,367

Contracted Services-

Advertising		4,432
Labor		1,080

Materials and Supplies-

Office Materials and Supplies		3,895
Uniforms		3,479

Auto Expense-

Gasoline		28,442
Maintenance and Repairs		4,956

Other Charges-

Training		1,233
Dues		350
School Resource		3,306
Transport Expense		111
Bond		609
Carrying Concealed Deadly Weapon Permits		3,335
Miscellaneous		1,769
Service Fees		465
Fiscal Court - House Bill 577		4,325

Capital Outlay-

Office Equipment	5,266	\$	192,054
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Debt Service:

State Advancement	15,000	
Notes	35,000	
Interest	472	50,472

Total Expenditures

242,526

The accompanying notes are an integral part of this financial statement.

POWELL COUNTY
JOE MARTIN, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2005
(Continued)

Net Revenues	\$ 76,008
Less: Statutory Maximum	<u>65,474</u>
Excess Fees Due County for 2005	\$ 10,534
Payments to Fiscal Court	<u></u>
Balance Due Fiscal Court at Completion of Audit*	<u><u>\$ 10,534</u></u>

*Note: The Sheriff presented a check to the County Treasurer for the full amount due fiscal court on May 22, 2006.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

POWELL COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2005
(Continued)

Note 4. School Resource Officer Fund

The Powell County Sheriff maintains a separate bank account for monies received from the Powell County Board of Education for School Resource Officers. Upon the expiration of the COPS-In-Schools grant, the Powell County Board of Education entered into an agreement with the Powell County Sheriff's Department for the School Resource Officers who were formerly funded through the COPS-In-Schools grant to remain in the county schools. The beginning balance in this account as of January 1, 2005 was \$9,427. Receipts from the Powell County Board of Education for the year were \$44,000. Expenditures for the year were \$43,937. The ending balance as of December 31, 2005 was \$9,490.

Note 5. Purdue Pharmaceutical Technologies Grant

The Powell County Sheriff's Department was awarded a grant from Purdue Pharmaceutical Technologies, Inc. to help fight the unlawful diversion and abuse of prescription drugs throughout the Powell County area. The Powell County Sheriff put these funds into a separate bank account. The beginning balance in this account as of January 1, 2005 was \$545. There were no receipts during 2005. Expenditures for the year totaled \$530. At the end of the year there was \$15 remaining in this account.

Note 6. Crime Stoppers In Schools

Crime Stoppers in Schools is a school supported program to decrease crime and increase pride within the school and local community by rewarding valid sharing of information regarding criminal activity. This program is sponsored by the Powell County Sheriff's Department, Powell County Schools, and Whitaker Bank of Powell County. During the year, the Sheriff received \$500 for this program, which was placed into a separate bank account. At the end of the year there was \$335 remaining in this account.

COMMENT AND RECOMMENDATION

POWELL COUNTY
JOE MARTIN, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility for recording financial transactions. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. This could be documented by the Sheriff initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and to the receipts and disbursements ledger.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any difference should be reconciled. This could be documented by the Sheriff initialing the bank reconciliation and beside the balance in the checkbook.

Sheriff's Response:

None.

PRIOR YEAR:

The Sheriff Has A Lack Of Adequate Segregation Of Duties

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bobby Drake, Powell County Judge/Executive
Honorable Joe Martin, Powell County Sheriff
Members of the Powell County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Powell County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated May 22, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Powell County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
May 22, 2006

